

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

**FORM 10-QSB**

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2006

☐ Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number** \_\_\_\_\_

**EP Global Communications, Inc.**

(Exact name of small Business Issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**14-1818396**

(IRS Employer Identification No.)

**C/O Exceptional Parent Magazine**

**551 Main Street, Johnstown, PA**

(Address of principal executive offices)

**15901**

(Postal or Zip Code)

**(814) 361-3860**

Issuer's telephone number, including area code:

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days  
☒ Yes ☐ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

34,495,819 shares of \$0.0001 par value common stock outstanding as of November 10, 2006.

Transitional Small Business Disclosure Format Yes ☐ No ☒

## **PART I FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. It is suggested that the following consolidated financial statements be read in conjunction with the year-end consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005.

The results of operations for the three and nine months ended September 30, 2006 and 2005 are not necessarily indicative of the results for the entire fiscal year or for any other period.

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**EP Global Communications, Inc.**  
**Consolidated Balance Sheet (Unaudited)**

	September 30, 2006
Current Assets:	
Cash	\$ 13,109
Accounts receivable, less allowance for doubtful accounts of \$30,000	208,089
Inventory	57,888
Prepaid expenses and other current assets	30,000
Total Current Assets	<u>309,086</u>
Property and equipment	439,723
Less: Accumulated depreciation	<u>(319,973)</u>
	<u>119,750</u>
Deferred financing costs, less accumulated amortization of \$102,778	310,222
Security deposits	<u>3,000</u>
Total Assets	<u><u>\$ 742,058</u></u>

See Accompanying Notes to Financial Statements.

**EP Global Communications, Inc.**  
**Consolidated Balance Sheet (Unaudited)**

	September 30, 2006
Current Liabilities:	
Current portion of long term debt	\$ 209,287
Short-term debt	33,755
Accounts payable	354,418
Accrued expenses	75,702
Due to shareholders	184,121
Deferred subscriptions and other revenues	179,055
Total Current Liabilities	<u>1,036,338</u>
Long-Term Liabilities:	
Long-term debt	4,037,341
Deferred subscriptions and other revenues	124,518
Total Long-Term Liabilities	<u>4,161,859</u>
Total Liabilities	<u>5,198,197</u>
Commitments and contingencies - see Note 10	
Stockholders' Deficiency:	
Preferred stock:	
Series A, \$.01 par value; authorized 5,000,000 shares; issued and outstanding 3,333 shares	33
Series B, \$1.00 par value; authorized 5,000,000 shares; issued and outstanding 309 shares	309
Common stock, \$.0001 par value; authorized 500,000,000 shares; issued and outstanding 30,295,818 shares	3,030
Additional paid in capital	2,326,055
Deficit	(6,785,566)
Total Stockholders' Deficiency	<u>(4,456,139)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 742,058</u>

See Accompanying Notes to Financial Statements.

**EP Global Communications, Inc.**  
**Consolidated Statements of Operations (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Advertising revenue	\$ 339,361	\$ 467,480	\$ 1,224,602	1,382,582
Subscription revenue	70,323	76,950	229,062	180,273
On line seminars	15,375	10,000	56,545	50,000
Book sales	7,806	8,073	28,837	57,281
Special projects	135,414	175,444	553,508	553,931
Other revenue	19,802		34,672	1,679
Revenues	<u>588,081</u>	<u>737,947</u>	<u>2,127,226</u>	<u>2,225,746</u>
Cost of sales	<u>326,086</u>	<u>214,304</u>	<u>1,057,676</u>	<u>832,598</u>
Selling, general and administrative expenses	<u>490,548</u>	<u>727,141</u>	<u>1,673,774</u>	<u>1,771,705</u>
Costs and expenses	<u>816,634</u>	<u>941,445</u>	<u>2,731,450</u>	<u>2,604,303</u>
(Loss) from operations	<u>(228,553)</u>	<u>(203,498)</u>	<u>(604,224)</u>	<u>(378,557)</u>
Other Expense:				
Depreciation and amortization	(47,524)	(13,530)	(134,736)	(40,590)
Interest expense	(85,139)	(30,800)	(219,936)	(78,334)
Other expenses	<u>(132,663)</u>	<u>(44,330)</u>	<u>(354,672)</u>	<u>(118,924)</u>
(Loss) before provision for income tax	<u>(361,216)</u>	<u>(247,828)</u>	<u>(958,896)</u>	<u>(497,481)</u>
Income tax provision	-	-	-	-
(Loss) before minority interests	<u>(361,216)</u>	<u>(247,828)</u>	<u>(958,896)</u>	<u>(497,481)</u>
Minority interest in income of consolidated subsidiary	-	-	-	(3,915)
Net (Loss)	<u>\$ (361,216)</u>	<u>\$ (247,828)</u>	<u>\$ (958,896)</u>	<u>\$ (501,396)</u>
(Loss) per common share - basic	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
(Loss) per common share - diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding - basic	<u>28,026,929</u>	<u>23,111,133</u>	<u>25,404,399</u>	<u>23,230,855</u>
Weighted average common shares outstanding - diluted	<u>28,026,929</u>	<u>23,111,133</u>	<u>25,404,399</u>	<u>23,230,855</u>

See Accompanying Notes to Financial Statements.

**EP Global Communications, Inc.**  
**Consolidated Statement of Shareholders' Deficiency (Unaudited)**

		<u>Series A Preferred Stock</u>		<u>Series B Preferred Stock</u>		<u>Common Stock</u>		<u>Paid-In</u>	
	<u>Total</u>	<u>Number of</u>	<u>Value of</u>	<u>Number of</u>	<u>Value of</u>	<u>Number of</u>	<u>Value of</u>	<u>Capital</u>	<u>Deficit</u>
		<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>	<u>Shares</u>		
Balance at January 1, 2006	\$ (3,527,973)	3,333	\$ 33	309	\$ 309	23,382,818	\$ 2,338	\$ 2,296,017	\$ (5,826,670)
Issuance of Common Stock in connection with conversion of debt	31,208					7,600,000	760	30,448	
Issuance of Common Stock for services (valued at an average of \$.033 per share)	7,500					225,000	23	7,477	
Issuance of Common Stock for services valued at \$.0008 per share	160					20,000	2	158	
Retirement of Common Stock in connection with litigation settlement	(10,638)					(1,182,000)	(118)	(10,520)	
Issuance of Common Stock to discharge accrued liability	2,500					250,000	25	2,475	
Net Loss	(958,896)								(958,896)
Balance at September 30, 2006	<u>\$ (4,456,139)</u>	<u>3,333</u>	<u>\$ 33</u>	<u>309</u>	<u>\$ 309</u>	<u>30,295,818</u>	<u>\$ 3,030</u>	<u>\$ 2,326,055</u>	<u>\$ (6,785,566)</u>

See Accompanying Notes to Financial Statements.

**EP Global Communications, Inc.**  
**Consolidated Statements of Cash Flow (Unaudited)**

	Nine Months Ended September 30,	
	2006	2005
Net (loss) / income	\$ (958,896)	\$ (501,396)
Adjustment to reconcile net (loss) / income to net cash used in operating activities:		
Depreciation and amortization	134,736	40,590
Accretion of interest expense on long-term debt	179,073	-
Retirement of common stock in connection with litigation settlement	(10,638)	-
Non-cash services	7,660	41,925
(Increase) decrease in operating assets:		
Accounts receivable	94,682	45,992
Inventory	(33,757)	(4,635)
Prepaid expenses and other current assets	(10,000)	(31,046)
Other assets	17,745	(212,085)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(144,216)	(122,086)
Deferred subscriptions and other revenues	(360,318)	(482,629)
Net cash used in operating activities	<u>(1,083,929)</u>	<u>(1,225,370)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	<u>(34,162)</u>	<u>(17,932)</u>
Net cash used in investing activities	<u>(34,162)</u>	<u>(17,932)</u>

Statement continued next page.

**EP Global Communications, Inc.**  
**Consolidated Statement of Cash Flow (Unaudited)**

	Nine Months Ended September 30, 2006	2005
Cash flows from financing activities:		
Proceeds from borrowings	1,610,701	2,087,542
Payments on debt	(337,215)	(832,149)
Increase in deferred financing costs	(153,000)	(220,000)
Reduction of capitalized lease obligation	-	(8,917)
Common Stock issued in connection with conversion of debt	31,208	-
Conversion of accrued liability to equity	2,500	-
Proceeds from shareholder	150,555	251,465
Repayments to shareholder	(184,709)	(23,935)
Net cash flows provided by financing activities	<u>1,120,040</u>	<u>1,254,006</u>
Net change in cash	1,949	10,704
Cash - beginning of period	<u>11,160</u>	<u>25,304</u>
Cash - end of period	<u>\$ 13,109</u>	<u>\$ 36,008</u>
Cash paid for interest	<u>\$ 27,443</u>	<u>\$ 49,125</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplementary disclosure of non-cash investing and financing activities:		
Common stock issued for services	<u>\$ 7,660</u>	<u>\$ 49,125</u>
Conversion of minority interest to permanent capital	<u>\$ -</u>	<u>\$ 104,305</u>
Conversion of accrued liability to equity	<u>\$ 2,500</u>	<u>\$ -</u>
Retirement of common stock in connection with litigation settlement	<u>\$ (10,638)</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements.



**EP Global Communications, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2006**  
**(Unaudited)**

**1. Description Of Business And Summary Of Significant Accounting Policies**

**Basis of Presentation**

On November 28, 2003, East Coast Airlines, Inc. ("East Coast") entered into a share exchange agreement with Psy-Ed Corporation. In connection with the share exchange, East Coast acquired the assets and assumed the liabilities of Psy-Ed Corporation. For accounting purposes, the share exchange agreement has been treated as a recapitalization of Psy-Ed Corporation as the acquirer.

**Organization**

EP Global Communications, Inc., formerly East Coast Airlines, Inc., and Subsidiaries ("EP" or the "Company"), operates its primary business through its subsidiary, Psy-Ed Corporation (d/b/a Exceptional Parent Magazine). In late 2004 and early 2005, EP entered into a joint venture, which has been consolidated in the Company's financial statements, to promote on line educational seminars, using a web based medium presenting topics that relate to the care of special needs individuals.

EP publishes and distributes Exceptional Parent Magazine, an international publication, designed to serve the information needs of families and professionals who are involved in the care and development of children and adults with disabilities and special health care needs. EP also develops and implements online accredited Continued Medical Education Programs; has its own library of over 1,500 disability book titles and publishes clinical monographs which are disseminated to physicians, researchers and allied health care professionals as well as families and caregivers all over the world.

**Significant Accounting Policies**

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All intercompany transactions and balances have been eliminated.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Credit Risk**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables.

The Company's cash and cash equivalents are concentrated primarily in three banks in the United States. At times, such deposits could be in excess of insured limits. Management believes that the financial institutions that hold the Company's financial instruments are financially sound and, accordingly, minimal credit risk is believed to exist with respect to these financial instruments.

The Company grants credit primarily to advertisers based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on these receivables is

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principally dependent on each customer's financial condition. A majority of the subscription income is received in advance and presents little risk to the Company. The Company controls its exposure to credit risk through monitoring procedures and establishes appropriate allowances for anticipated losses.

The Company has two major customers that comprised more than 10% of sales in the periods reported in the accompanying statement of operations. One customer comprised 3% and 15% of the Company's revenue in the three months ended September 30, 2006 and 2005, and 12% and 13% in the nine months ended September 30, 2006 and 2005, respectively. One customer comprised 10% of the Company's revenue in the three months ended September 30, 2006, and 7% and less than 1% in the nine months ended September 30, 2006 and 2005, respectively. There were no other customers that comprised greater than 10% of the total company revenues in those years.

**Provision for Losses on Uncollectible Receivables**

The provisions for losses on uncollectible trade receivables are determined principally on the basis of specific identification and past collection experiences. The allowance for doubtful accounts on accounts receivable balances was \$16,680 at September 30, 2006.

**Inventories**

Inventories, consisting primarily of books, are stated at the lower of cost or market, determined on the first-in, first-out (FIFO) method.

**Minority Interests**

Minority interests consist of a fifty percent (50%) ownership interest in EP Educational Network LLC ("LLC") from September 2004 through September 2005 (see Note 9).

During this period, the income from the operation of the entity and its respective minority interests have been reflected in the Company's statement of operations and, beginning in October 2005, the LLC became a single member LLC with all transactions consolidated in the financial statements.

**Revenue Recognition**

The Company recognizes revenue in accordance with the guidance contained in SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB101"), and Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB104"). Under these pronouncements, revenue is recognized when persuasive evidence of an arrangement exists, delivery of services and/or products has occurred, the sales price is fixed or determinable, and collectibility of the sales price is reasonably assured. In addition to these general revenue recognition criteria, the following specific revenue recognition policies are followed:

Advertising revenue, which consists predominantly of graphic and text displays, is recorded in the period corresponding to the presentation in the publication. Online services advertising revenues, primarily derived from the sale of banner advertisements and sponsorships on the Company's web sites, is recognized in the period the advertising is displayed. The costs to develop this internet income are period costs and are expensed when incurred. Print publication advertising and circulation revenues are recognized, net of agency commissions and estimated returns and

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allowances, when publications are issued. List rental income is recognized, net of commission, when a list is sold or rented.

Subscription income is recognized based upon the monthly pro-ration of income within the reporting period for a given subscription. Deferred subscription income, net of agency commission, is recorded when subscription orders are received. The Company uses a fulfillment house, which calculates the revenue to be recorded for all periods. Customers generally subscribe to the magazine for three years. Deferred subscription income represents the portion of the prepaid subscription not earned by the Company and paid for in advance of fulfillment by the Company to the customer.

Revenue from the production of on line educational seminars is recorded at the time the seminar is conducted.

Special project revenue recognition occurs at the time of delivery of the product or service that constitutes the special project. Special projects include such undertakings as custom communications as well as the Company's "Disability Awareness Night" program.

#### Cost of Sales

Cost of sales consist of those costs that are associated with the production of income for a given business activity.

#### Depreciation and Amortization

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years. Leasehold improvements are amortized over the lesser of the useful life of the asset or the term of the lease.

#### Stock-Option Plan

Prior to December 31, 2005, the Company accounted for equity-based compensation issued to employees in accordance with Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees". APB No. 25 requires the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at the measurement date over the amount an employee must pay to acquire the stock. The Company made disclosures of pro forma net earnings and earnings per share as if the fair-value-based method of accounting had been applied as required by SFAS No. 123 "Accounting for Stock-Based Compensation."

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. A key provision of this statement is the requirement of a public entity to measure the cost of employee and non-employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period or vesting period). This standard becomes effective on January 1, 2006 for small business issuers. Although the Company adopted SFAS 123R beginning in the first quarter of 2006, there was no impact to the financial statements.

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There were no awards or outstanding compensatory options or warrants in the nine months ended September 30, 2006 or 2005; accordingly, had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in 2006 and 2005 consistent with the provisions of SFAS No. 123, the Company's results of operations, as reported, would not have changed.

There were no compensatory options or warrants were granted during the nine months ended September 30, 2006 or 2005. See Note 4 for discussion of warrants issued during 2005 and in the third quarter of 2006 in connection with debt financing.

#### Income Taxes

The Company accounts for income taxes using an asset and liability approach under which deferred income taxes are recognized by applying enacted tax rates applicable to future years to the differences between the financial statement carrying amounts and the tax bases of reported assets and liabilities.

The principal items giving rise to deferred taxes are certain expenses which have been deducted for financial reporting purposes which are not currently deductible for income tax purposes and the future tax benefit of certain net operating loss carryforward.

#### Evaluation of Long-Lived Assets

The Company reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable in accordance with guidance in SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." If the carrying value of the long-lived asset exceeds the present value of the related estimated future cash flows, the asset would be adjusted to its fair value and an impairment loss would be charged to operations in the period identified.

#### (Loss) Per Share

Basic (loss) / income per common share is computed by dividing net (loss) / income by the weighted average number of common shares outstanding during the period. Diluted (loss) / income per common share is computed by dividing net (loss) / income by the weighted average number of common shares and potential common shares outstanding during the period. The basic weighted average shares were used in calculating quarter and nine months ended September 30, 2006 and 2005 diluted (loss) / income per share, as inclusion of the incremental shares shown in this calculation would be antidilutive. Potential common shares used in computing diluted (loss) / income per share at September 30, 2006 relate to common stock warrants convertible into 5,000,000 shares of common stock and convertible preferred stock convertible into 719,801 shares of common stock.

#### Fair Value of Financial Instruments

For financial instruments including cash, accounts payable, accrued expenses and notes payable, it was assumed that the carrying amount approximated fair value because of the short maturities of such instruments.

**EP Global Communications, Inc.**  
**Notes to Consolidated Financial Statements**  
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**Basis of Presentation**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. This basis of accounting contemplates the recovery of the Company's assets and the settlement of its liabilities in the normal course of conducting business. In the two most recent years, the Company has obtained cash from various debt financings to fund capital expenditures and for cash used by existing operations. From September 2005 through January 2006, the Company used proceeds from a \$3.0 million loan to repay a substantial portion of its debt and to provide for continuing operations through the third quarter of calendar year 2006. In August 2006, the Company entered into a \$2.0 million financing of which \$600,000 was received in the third quarter. The remainder of the financing will be received over the next 14 months at \$100,000 per month. (See note 4.) The Company is continuing initiatives to produce significant increases in revenues and to enact cost reduction programs.

**2. Property And Equipment**

Property and equipment at September 30, 2006 consists of the following:

	Furniture & Fixtures	Equipment	Computer Equipment	Other
Property and equipment	\$ 194,632	\$ 163,708	\$ 51,001	\$ 30,382
Less: Accumulated depreciation	(123,268)	(144,822)	(28,343)	(23,540)
	<u>\$ 71,364</u>	<u>\$ 18,886</u>	<u>\$ 22,658</u>	<u>\$ 6,842</u>

Depreciation expense for the three months ended September 30, 2006 and 2005 was \$45,857 and \$13,530, respectively. Depreciation expense for the nine months ended September 30, 2006 and 2005 was \$87,212 and \$27,060, respectively.

**3. Accrued Expenses**

Accrued expenses at September 30, 2006 consist of the following:

Commissions	\$ 7,038
Interest	38,170
Taxes payable	100
Payroll withholdings	428
Other expenses	29,966
	<u>\$ 75,702</u>

**4. Debt**

Long-Term Debt

Long-term debt at September 30, 2006 consists of the following:

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**Notes to Consolidated Financial Statements**  
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Note payable - the Company will issue up to \$3,720,000 in callable convertible notes. The notes are convertible into shares of our common stock. The convertible debt instrument bears interest at 8% per annum. See further discussion below.	\$ 3,183,279
Note payable - the Company will issue up to \$2,600,000 in callable convertible notes. The notes are convertible into shares of our common stock. The convertible debt instrument bears interest at 10% per annum. See further discussion below.	606,267
Note payable to the City of Johnstown, interest at 3%, due November 2011. This note is collateralized by equipment owned by the Company. Principal and interest payments of \$1,321 per month.	77,214
Note payable to First Commonwealth Bank, interest at 6.25%. The note is due December 2006 with monthly payments of principal and interest of \$5,213.	10,618
Amount payable to vendor under an extension of credit up to \$369,250. Interest at 6%, due December 2008. Principal and interest payments of \$30,000 per month in December 2006 and January 2007. Thereafter, payments of \$20,000 monthly through September, 2007. After September 2007, or at any time during the period of the note that the principal amount is less than \$150,000, the note may be converted to an open account with no obligation for continuing principal payments.	369,250
	<u>4,246,628</u>
Less: Current portion	<u>(209,287)</u>
	<u><u>\$ 4,037,341</u></u>

The following are maturities of long-term debt:

12 Months Ended September 30,	
2007	\$ 209,287
2008	137,528
2009	3,494,413
2010	15,475
2011	4,277
2012 and Thereafter	<u>385,648</u>
	<u><u>\$ 4,246,628</u></u>

On September 23, 2005, the Company completed financing agreements by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC.

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Under the securities purchase agreement, the Company will issue up to \$3,720,000 in callable secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the lesser of \$0.12 or the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. In addition, our chief executive officer individually pledged 3,371,093 shares of common stock. In addition, the Company issued 5,000,000 stock purchase warrants convertible into shares of our common stock on a one for one basis. The exercise price is \$.15 and the term of the warrants is 5 years.

A private investment firm received a commission of \$240,000 (8% of the aggregate net proceeds of \$3,000,000) for arranging for this financing.

The convertible debt instrument bears interest at 8% per annum and is due beginning in September 23, 2008.

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the convertible debt. The calculated fair value of the convertible debt of \$3,131,775 was recorded as a long term liability as of September 30, 2006. The convertible debt will be accreted to its face value of \$3.7 million under the interest method until it is either converted or matures. As of September 30, 2006, the cumulative accretion was \$151,341 of which \$61,877 was recognized in the second quarter of 2006, \$54,264 was recognized in the first quarter of 2006 and \$35,200 was recognized as of December 31, 2005.

During the first quarter of 2006, the holder of the convertible debt exercised their rights to convert a portion of the debt to 1,200,000 shares of common stock. The exercise price of the stock was \$0.008 and the market value of the stock at March 31, 2006 was \$0.01. During the second quarter of 2006, the holder of the convertible debt exercised their rights to convert a portion of the debt to 2,400,000 shares of common stock. The average exercise price of the stock was \$0.004 and the market value of the stock at September 30, 2006 was \$0.009. During the third quarter of 2006, the holder of the convertible debt exercised their rights to convert a portion of the debt to 4,000,000 shares of common stock. The average exercise price of the stock was \$0.0029 per share and the market value of the stock at September 30, 2006 was \$0.0055.

If the obligation had been settled on September 30, 2006, under the formula for conversion, the Company would issue approximately 964,630,000 shares of its common stock (with a fair value, based solely on the quoted market price per share as of September 30, 2006, of \$0.0055 - \$5,305,465 in the aggregate). However, under the terms of the agreement, the maximum number of shares that could be required to be issued is 206,666,666, and the maximum number of shares of common stock that are authorized to be issued by the Company is 500,000,000.

Provided the Company is not in default under the financing documents, it has a sufficient number of authorized shares of its common stock reserved for issuance upon full conversion of the promissory notes and its common stock is trading at or below \$.15 per share, the Company shall have the right, exercisable on not less than 10 trading days prior written notice to the holders of the promissory notes, to prepay all of

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the outstanding promissory notes. If the Company exercises its right to prepay the promissory notes, it shall make payment to the holders of an amount in cash equal to either (i) 125% (for prepayments occurring within 30 days of the issue date of the promissory notes), (ii) 130% for prepayments occurring between 31 and 60 days of the issue date of the promissory notes, or (iii) 140% (for prepayments occurring after the 60th day following the issue date of the promissory notes, multiplied by the sum of the then outstanding principal amount of the promissory notes plus default interest.

On August 15, 2006, the Company completed a second financing agreement by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC.

Under the second securities purchase agreement, the Company will issue up to \$2,600,000 in callable secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the lesser of \$0.05 or the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. In addition, the Company issued 5,000,000 stock purchase warrants convertible into shares of our common stock on a one for one basis. The exercise price is \$.01 per share and the term of the warrants is seven years.

A private investment firm received a commission of \$60,000.

Through September 30, 2006, the Company received proceeds of \$ 600,000 under the terms of the securities purchase agreement. The funds were received in the amount of \$500,000 upon signing the definitive investment agreements and \$100,000 monthly thereafter.

The convertible debt instrument bears interest at 10% per annum and is due beginning in August, 2009.

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the convertible debt. The calculated fair value of the convertible debt of \$ 606,267 was recorded as a long term liability as of September 30, 2006. The convertible debt will be accreted to its face value of \$2.6 million under the interest method until it is either converted or matures. As of September 30, 2006, the cumulative accretion was \$6,267, all of which was recorded in the third quarter of 2006.

If the obligation had been settled on September 30, 2006, under the formula for conversion, the Company would issue approximately 183,717,275 shares of its common stock (with a fair value, based solely on the quoted market price per share as of September 30, 2006, of \$0.0055 - \$1,010,445 in the aggregate). However, under the terms of the agreement, the maximum number of shares that could be required to be issued is 206,666,666, and the maximum number of shares of common stock that are authorized to be issued by the Company is 500,000,000.



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Short-Term debt

Short-term bank obligations at September 30, 2006 consist of

An unsecured line of credit with MBNA, interest at 21.25%.	\$ 18,755
An unsecured advance from a private individual, due on demand, with no interest. This amount was repaid in October 2006.	15,000
	<hr/>
	<u>\$ 33,755</u>

**5. Related Party Transactions**

Amounts due to shareholders at September 30, 2006 consists of the following:

Notes Payable to Officers / Directors	
Amount payable to shareholder, due on demand, interest at 6%	\$ 929
	<hr/>
	<u>929</u>
Other amounts due to Officers / Directors / Shareholders	
Deferred compensation payable to the Chief Executive Officer	66,931
Note payable to the Chief Executive Officer, due on demand, interest at 6%	92,901
Deferred compensation payable to former Chief Operating Officer	20,360
Note payable to shareholder, due on demand, with no interest. This amount was repaid in October 2006.	3,000
	<hr/>
	<u>183,192</u>
	<hr/>
	<u>\$ 184,121</u>

The deferred compensation amounts due the Chief Executive Officer and Chief Operating Officer represent unpaid compensation due each individual based upon their normal annual compensation that remains unpaid at the end of the third quarter 2006. These balances are non interest bearing and are expected to be paid during 2006.

As of August 1, 2006, the Chief Operating Officer resigned and has entered into a consulting agreement with the Company.

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**6. Income Taxes**

The liability method, prescribed by SFAS No. 109, "Accounting for Income Taxes", is used by the Company in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

During the first nine months of calendar 2006, the Company recorded a deferred tax asset associated with its net operating loss ("NOL") carryforwards that was fully offset by a valuation allowance due to the determination that it was more likely than not that the Company would be unable to utilize these benefits in the foreseeable future. The Company's NOL carryforwards expire at various times through 2025.

There is no provision for income taxes for the three and nine months ended September 30, 2006 and 2005 as there was no taxable income in either period.

The types of temporary differences between tax basis of assets and liabilities and their financial reporting amounts that give rise to the deferred tax liability and deferred tax asset and their approximate tax effects are as follows:

	September 30, 2006	
	Temporary Difference	Tax Effect
Net operating loss carryforward	\$ 4,559,952	\$ 1,550,384
Less: Valuation account	(4,559,952)	(1,550,384)
	<u>\$ -</u>	<u>\$ -</u>

The provision for income taxes on earnings differs from the amount computed using the federal statutory rate of 34% as a result of the following:

	September 30	
	2006	2005
Federal taxes at statutory rate - 34%	\$ (326,000)	\$ (170,475)
State income taxes net of federal benefit	5,000	5,000
Change in valuation allowance	321,000	165,500
Other	-	(25)
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>

See Note 1 regarding the Company's business combination pursuant to a share acquisition agreement. The business combination was a tax-free merger pursuant to Internal Revenue Code Section 368. Accordingly, in connection with this merger, the Company's ultimate recognition of its NOL became subject to Internal Revenue Code Section 382.

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The general tax principle underlying Code Section 382 is that losses incurred by a corporation may be utilized by offsetting income it later generates, as long as its separate existence and the identity of its major shareholders are basically unchanged. However, significant limitations to the use of the Company's NOL may apply if there is an ownership change. The testing period is defined as the three-year period ending on the day of any shift involving a five-percent shareholder or the equity structure.

While the Company does not believe the ultimate realization of its NOL carryforward will be impacted by the merger, it can give no assurance that limitations that may exist under the prevailing, or future, Code Section 382 will not apply.

## **7. Stock Issuances and Other Transactions**

The holder of the Company's convertible note exercised their option to convert a portion of the debt to 3,600,000 shares of the Company's common stock. See Note 4.

For the quarter ended March 31, 2006, the Company issued 225,000 shares of the Company's common stock to employees and non-employees as stock-based compensation in the amount of \$7,500, that has been recorded as an expense in the Company's financial statements.

For the quarter ended September 30, 2006, the Company issued 20,000 shares of the Company's common stock to employees as stock-based compensation in the amount of \$160, that has been recorded as an expense in the Company's financial statements.

The Company accounts for the services using the fair market value of the services rendered.

In connection with the dismissal of legal action against the Company (see Note 10), the plaintiffs returned 1,182,000 shares of the Company's common stock. At the time the Company reflected the stock as issued and outstanding, it recognized consulting expenses approximating \$10,638. Accordingly, in connection with the return and retirement of these shares of common stock, the Company reduced consulting expenses for the quarter ended March 31, 2006 by \$10,638.

During the first quarter of 2006, the Company issued 250,000 shares of its common stock to discharge a \$2,500 accrued liability.

## **8. Stockholders' Deficiency**

### Common Stock

The Company is authorized to issue 500,000,000 shares of \$.0001 par value common stock. All the outstanding Common Stock is fully paid and non-assessable.

### Preferred Stock

#### Preferred Stock – Series A

The Company is authorized to issue 5,000,000 shares of \$ .01 par value Preferred Stock – Series A. All the outstanding Preferred Stock is fully paid and non-assessable. Each share of the Preferred Stock is convertible, at the option of the holder at any time, into 190 shares of the Company's Common Stock.

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**Preferred Stock – Series B**

The Company is authorized to issue 5,000,000 shares of \$1.00 par value cumulative Preferred Stock – Series B. All the outstanding Preferred Stock is fully paid and non-assessable. Each share of the Preferred Stock is convertible, at the option of the holder at any time, into 277 shares of the Company's Common Stock.

The holders of Series A and Series B Preferred Stock have certain rights more fully described in the footnotes to the Company's December 31, 2005 financial statements included on Form 10KSB as filed with the Securities and Exchange Commission on April 14, 2006.

**9. Interest In LLC**

EP Global, during September 2004, entered into a joint venture with the InforMedx Group, LLC, ("InforMedx") a subsidiary of the Conemaugh Health System of Johnstown, Pennsylvania, to promote on line educational seminars, using a web based medium presenting topics that relate to the care of special needs individuals. The content of the seminars is medically based in most instances. The intended audiences are professional, and aligned and family caregivers of special needs individuals.

To implement the joint venture, EP has established a limited liability company, EP Educational Network LLC, ("Network") and InforMedx agreed to pay \$210,000 for a one half interest in this newly established entity. Of this amount \$100,000 was received in September 2004 with the balance due September 2005.

All content used is to remain the property of EP with any jointly developed content being the property of seminars with each of the parties able to utilize the content in any manner so long as that use is not disruptive to the purpose, intent or in conflict with the business activities of seminars. Profits were to allocated based on the ownership ratio.

EP has recognized the transaction as an addition to minority interest.

In June of 2005, shortly after a change in senior management at Conemaugh, InforMedx informed the Company that it had reconsidered its continuing participation in the joint venture and made a determination that continued participation would not be consistent with Conemaugh's strategic goals. Accordingly, InforMedx returned its one-half ownership of the LLC to the company in exchange for being released from making the \$110,000 contribution in September 2005. Consequently, the Company has transferred \$100,000 of minority interest to additional paid in capital. Also, the minority interest was further reduced, with an offset to paid in capital, by \$7,173. There are no obligations to InforMedx at September 30, 2006.

**10. Commitments and Contingencies**

**Operating Leases**

The Company has operating leases for office space and temporary living space expiring in 2006 and office equipment expiring in 2007. The Company recently entered into an operating lease for office space expiring in 2009. Total operating lease expense for the nine months ended September 30, 2006 and 2005, respectively, amounted to \$85,892 and \$70,645. Subsequent lease payments are \$18,786 for the remainder of calendar 2006, \$42,780 in 2007, \$42,780 in 2008, and 43,980 in 2009.

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Legal Proceedings

The Company is a plaintiff against a former director and shareholder who has not satisfied the terms of his agreement with the Company of April 1998. The action resulted in the Company suspending payments to him under that agreement which at the time of suspension had a balance of \$119,651. The Company was and is also a counterclaim defendant in the case. A trial took place beginning on June 12, 2006, and the court entered findings of fact and rulings of law unfavorable to the Company. No final judgment has been entered and the court has ordered that further hearings be held. No further trial result or judgment is expected in the current calendar year. The Company intends to challenge the court's findings and rulings in the normal course of the litigation. It remains the Company's belief that it will not be liable for the payments or any other damages sought in the case and that it has meritorious defenses to the damage claims against it. The Company also believes that its claims in the case are well-grounded in fact and in law and that, successfully prosecuted as the case continues, might well exceed the amount of the claims against the Company in this action.

On July 27, 2005, the Company received notice that an action has been commenced against the Company alleging breach of contract and other causes of action seeking specific performance and other unspecified damages. The Company denied liability and counter-claimed for fraud. In January 2006, the parties agreed to settle the matter, and the action was dismissed.

## Item 2. Management's Discussion and Analysis or Plan of Operation

### FORWARD LOOKING STATEMENTS

This quarterly report contains forward-looking statements that involve risks and uncertainties. We use words such as anticipate, believe, plan, expect, future, intend and similar expressions to identify such forward-looking statements. You should not place too much reliance on these forward-looking statements. Our actual results are likely to differ materially from those anticipated in these forward-looking statements for many reasons.

#### Plan of Operation

It is management's intent to continue and expand our 35 year heritage of providing "Information that Matters From People Who Care" to the special needs market. The 35 year heritage is based on our wholly owned subsidiary, Psy-Ed Corporation d/b/a Exceptional Parent Magazine. In 2004, we began implementing a growth strategy that consists of a three-point initiative as outlined below to increase revenues and profitability for 2006 and beyond.

Management believes that our core services, consisting of ad revenue, custom communications and EP Global special project segments including "Disabilities Awareness Night" conducted in various sports mediums as well as our unique, proprietary and innovative on line interactive TV quality CME and CEU accredited educational programs will continue to experience growth throughout the remainder of 2006.

#### Special Projects:

Disability Awareness Night - In each of the preceding three years, the Disability Awareness Night (DAN) campaign launched in 2002 has grown substantially. In 2002, we started with two teams, the New York Yankees and the Boston Red Sox. In 2003, the participation expanded to fourteen teams. In 2004, we grew to twenty-seven teams and in 2005 we had DAN events in thirty-one stadiums including the Hall of Fame Game in Cooperstown, New York. In 2006, we actually did 36 teams./venues and we experienced the participation of our lead sponsor whose financial contribution has now expanded from \$150,000 to \$300,000 with ancillary sponsorship totaling an additional approximately \$200,000 for print and other services. We also benefited from additional sponsorship provided by other national entities such as Genzyme, Shire Pharmaceuticals, CVS Pharmacy and Volvo.

Educational On Line Programming - Through June we have completed four on-line interactive live TV quality CME and CEU accredited educational programs under unrestricted educational grants from a major pharmaceutical company, Allergan Inc. dealing with spasticity. We also did one on line seminar dealing with Hyperbaric Oxygen Therapy and its use in the treatment of Autism and Traumatic Brain Injury. This will be followed by additional educational series dealing with conditions such as epilepsy and expanded newborn screening utilizing tandem mass spectrometry (MS/MS). Two significant on line seminars are scheduled for later in the year with funding in place. These are Klinefelter syndrome funded by a grant from Solvay Pharmaceuticals and Epilepsy. Each are accredited by a major medical university, the University of Medicine and Dentistry of New Jersey (UMDNJ). It is expected that by the end of 2006 a substantial portion of an approved U.S. Army appropriation of \$1,000,000 to provide education and informational access to professional and family military caregivers in the U.S. military will be received. This funding will be dedicated to providing needed education using our on line medium but will also include print based products such as a customized military edition of Exceptional Parent magazine and books from the EP Library, all distributed to key military bases around the country.

Strategic Initiatives: Our platform for growth in part is due to a number of marketing joint initiatives that have been entered into allow EP Global to address specific target niche markets in a concentrated manner. Listed below are the key relationships we now have that are intended to result in additional revenue for the Company.

Child Neurology Foundation -	Agreement to co produce on line seminars in 2006. No other entity has this opportunity. The CNF is the recognized extension of the more than 1,400 child and adult neurologists in the United States and the acknowledged entity by this group to conduct educational programming.
Vemics, Inc. -	Relating to technology exclusivity in health care. Has worldwide marketing and distribution rights for this technology.
CTC Foundation and John Williams -	EP Global and CTC / John Williams have agreed to joint market to assistive technology companies capitalizing on the work and writings already performed by John Williams an acknowledged expert in the field of assistive technology. Mr. Williams is a regular contributor to publications such as USA Today, writing on trends and developments in assistive technology an area of critical importance to individuals with special needs

We have been notified that as of March 31, 2006, the bill containing an appropriation earmarked for EP Global in the amount of \$1,000,000 has passed both houses of Congress and been signed by the President. Please refer to the commentary that follows for further explanation of the process that will lead to the funding of this appropriation. These funds will be used to provide ongoing education for military families and physicians caring for children with disabilities and special health care needs.

We have also expanded our sales force from four individuals in 2005 to six individuals and one outside representative responsible for West Coast sales in support of our selling efforts primarily of space advertising in our various markets across the nation.

To improve efficiency and allow for greater promotion of our magazine to stimulate subscription income we have outsourced our entire circulation management to a firm specializing in this area. The incremental cost of doing this is not material in relation to the costs to date. Previously, circulation management has been handled internally by our existing staff. Our business, with its multiple product lines and multi media approach to publishing and communications, suggests that we might best be able to grow our existing paid circulation base under the direction of an experienced and professional circulation management team who can also oversee the shift to a smaller more effective fulfillment firm; one more suited to the nature of our business which is heavily involved in medical and health care related activities. Accordingly, we are shifting compensation and related expenses to outside professional circulation services that have experience in both consumer as well as medical/professional publishing. The cost differential associated with this shift, as noted, is negligible but the potential for significant increases in paid circulation and related development activities such as bundled advertising and sponsored bulk distribution of the monthly magazine should yield higher revenue performance for us.

The agreement with ProCirc, based in Miami, Florida, is for one year and can be expanded or terminated depending on its performance. There are incentives built into the agreement to reward performance. Finally, it is important to note that increases in unit circulation will also result in increases in advertising as we will be reaching a larger audience which should justify increases in ad page sales from a larger number of ad page sales as well as ad page rate increases.

In 2006, we have continued our expanded Disabilities Awareness Night programs, principally conducted in major league baseball parks since 2002. In 2006 we tested the DAN concept with two NBA teams and intend to expand this to several others in 2007. On May 15, 2006, in conjunction with the National Baseball Hall of Fame in Cooperstown, New York, we hosted prior to the annual "Hall of Fame" game, a ceremony honoring returning disabled veterans from Iraq and Afghanistan. This was done in conjunction with Walter Reed Army Medical Hospital. Sponsorship for the event was provided by Mass Mutual Financial Group and Bearing Point, a national consulting firm headquartered in Tysons Corners, Virginia.

On December 1-3, 2005 the Annual World Congress and Exhibition on Disabilities was held in Philadelphia, Pennsylvania. Previously, in October 2004, it had been held in Orlando, Florida with approximately 6,000 attendees. We conducted over 100 individual education sessions during the event with world renowned guest lecturers providing education on topics including autism, ADHD (Attention Deficit Hyperactivity Disorder), cerebral palsy and mental retardation..

We have disengaged from the World Congress and Exhibition as an entity and are expected to pursue alternative venues to continue the production of hosted educational sessions in a forum environment. This in addition to our interactive on line initiatives.

It should also be noted that further internal growth is expected to result from Exceptional Parent Magazine being designated as the official publication of the American Academy of Developmental Medicine and Dentistry ("AADMD"), a national professional medical society of physicians and dentist specializing and dedicated to addressing the needs of people with developmental disabilities. Beginning with the July 2005 issue of Exceptional Parent Magazine, the AADMD is providing articles for the magazine and the opportunity for physicians to secure up to 2 credit hours of Continuing Medical Education by completing a test that is to follow each article. Management believes that Exceptional Parent Magazine is the first and only special interest consumer publication ever to offer Continuing Medical Education credits to physicians. Our relationship with the AADMD is in addition to relationships we enjoy with numerous disabilities groups throughout the United States as well as with medical societies such as the Child Neurology Society, the American Academy of Pediatrics and the American Academy of Cerebral Palsy and Developmental Medicine.

It should also be noted that our officer and director, Joseph M. Valenzano Jr. is the only non-physician to hold a board seat on the AADMD and Mr. Valenzano currently chairs the Executive Advisory Board of the AADMD.

In March 2005, we submitted an appropriations request in the amount of \$1,000,000 to Congress. Under the appropriation request, the Army would receive \$1,000,000 and then develop a contract for delivery of service with EP Global for that approximate value. We have been notified that the appropriation has been approved by both houses of Congress and signed by the President. Further, in February 2006 we were notified that "these funds had been released to the appropriate department at Fort Dietrich, MD which allows EP to begin the processing of its contract. A full proposal submission has been made and reviewed by the Army and we are awaiting comments which represents a condition precedent to actual contract development and execution between EP Global and the Army. Recently we were notified that our proposal has been approved but cut back to \$830,650 and a contract is forthcoming on or about December 1, 2006.

Once funded in 2006 as outlined, this contract would increase our education and information programs to military families with special needs dependents and caregivers. It is our intent to build upon our existing relationships within the military community to bring timely and meaningful educational content in both print and on a web based delivery system to these families but also to the physicians charged with their care. In this regard, we have already begun the process of exploring ways in which we can deliver high quality educational content focused in the chronic disability and special needs area in cooperation with military hospitals such as Walter Reed Army Medical Center, Brooke Army Medical Center and the Uniformed Medical Services School in Bethesda. This initiative, once operational, would result in increased revenue of a portion of the \$1,000,000, to be recognized in 2006 from subscriptions, on-line interactive training sessions and custom communication sales. We would account for all revenues consistent with existing accounting policy which is to identify revenue streams consistent with our core services which are subscriptions, page advertising, and special projects/custom communications and on line web based programming. We would also identify these revenue streams as being generated from military funding so as to distinguish the revenue streams from those funded by private sponsorship.

Management estimates that the overall cost associated with the planned educational programming will approximate 65% to 75% of revenues received.



Our revenues are generated from the following activities:

**Sale of Advertising Space in Exceptional Parent Magazine:** This is driven by a number of factors, including our editorial content and focus. Our customers consist of large Fortune 500 companies: Ford, Chrysler, Kimberly Clark, Novartis Pharmaceuticals, Johnson & Johnson, Massachusetts Mutual Life Insurance Company, Verizon and Merrill Lynch. All purchase ad space in our publications is to enhance awareness and image for their products and services and brand recognition for their names. Historically, revenues generated from the sale of advertising space has ranged from approximately \$1.6 million dollars to as high as \$2.2 million in the past (1998).

**Disability Awareness Night Programs at Major and Minor League Stadiums:** This program generates revenue. Each of these DAN Events are sponsored on a national basis by a leading sponsor, MassMutual Financial Group followed by regional and local sponsorships. In 2005 for example, total revenues from this effort aggregated approximately \$400,000. We have already signed the sponsorship agreement with our lead sponsor for 2006 in the amount of \$300,000 and have commitments from other sponsors that will yield revenues of approximately \$400,000 in 2006. This does not include any sponsorship revenues from other venues such as the NBA Games and NHL and Minor League Hockey Games.

**EP Bookstore:** The EP Bookstore houses approximately 1,500 disability specific books, video and tapes dealing with a wide range of disability topics. We have been building this base for quite some time and are now poised to leverage its growth with some targeted marketing to specific market segments such as military bases and libraries across the nation.

The bulk of our library has been built through negotiating with third party publishers such as Baker and Taylor and McGraw Hill. This has been done over a period of years and with great selectivity and sensitivity. We evaluate the extensive titles published by other book publishing companies and inquire about their sales. Based on the intelligence we obtain, we approach these companies which roughly number about 90 and negotiate with them for bulk purchases of certain titles our Editorial Advisory Board indicates are consistent with our mission, goals and objectives. In many cases we are able to negotiate consignment inventory. All of this is possible because large book publishers really do not have a good sense of the disability marketplace and/or the needs of specific targeted audiences whether consumer or professional in nature. We have this expertise and we went about building our library of titles in specific disciplines. In the process of building this library, we place importance in understanding the marketing requirements for reaching this audience and whether or not we believe we can do so effectively through our magazine, web site and contacts within disability organizations and professional medical societies; and via distribution and sales at trade shows and conferences. The EP Bookstore also consists of book titles we own outright and exclusively. Examples of such titles include the following: No Apologies for Ritalin by Bhushan Gupta, MD; and Patient Persistence by Adele Gill, RN and approximately five other titles. None have a material impact taken individually or collectively but the profit margins earned on these sales are approximately 30% while the profit margins on other titles are in the vicinity of 10%. Our decision to have a stake in book publishing is based on the fact that we receive countless number of requests to publish specific manuscripts as books. While most of these are rejected, the pipeline for such valuable information is of high importance to us because some of this can be turned into productive titles we can publish while others can serve as useful content for some of our other multi media publishing activities in print or on line. We do not envision total revenues from our book operation to reach levels much beyond \$200,000 per year with profit margins on the order of 15%.

**Custom Publishing & Contract Publishing:** Over the years, we have taken educational editorial series published in EP Magazine, had them reviewed by a panel of clinical thought and opinion leaders, edited and packaged into stand alone monographs focused on a specific subject area and distributed to key target market segments mutually identified by a project sponsor and ourselves. All of this work is completely funded under unrestricted educational grants secured from major pharmaceutical companies, medical equipment device manufacturers, consumer packaged goods companies and financial services companies. At all times, we adhere to strict ACCME Standards for medical education and strict standards that insure the separation of that which is educational and that which is promotional in nature. An example of this approach is as follows:

Our editorial advisory board suggests a topic that is cutting edge and much needed in the context of medical education. An example is The Spectrum of Mitochondrial and Metabolic Disorders.

A series is published on this subject featuring the very best medical and scientific research authorities we can find. The series might be three, four or six consecutive articles in EP magazine, each one focused on a specific area.

Once complete, the series is then reviewed by a separate panel of experts to insure that it is adequate and or needs additional bolstering if it is to be packaged as a stand-alone monograph. Additional content may or may not be recommended and we would then take it forward to the sponsor/grantor.

The sponsor/grantor will decide whether to proceed with the development of a stand-alone monograph. We would price the project to include paper, printing, distribution costs, packaging, etc. A price quote will be provided to the sponsor inclusive of our profit margin.

The project will be produced and implemented.

This description fits A Primary Care Physicians Guide to Mitochondrial and Metabolic Disorders and its companion publication, a Parent's Guide to Mitochondrial and Metabolic Disorders. Both publications are now in their third printing with press runs in excess of 100,000 copies and distributed all over the world and used at major teaching hospitals and clinics internationally. Sponsorship revenue for these two products aggregated over \$250,000 in 2004 with profit margins of approximately 25%. Extra supplies are always printed and these copies are sold through our EP Library at reduced rates, such as \$5.00 per copy intended to cover postage costs and yield a small profit.

Historically, we have produced one or more significant custom communications projects per year. In 2003 and 2004, revenue from this segment amounted to \$235,000 and \$75,000, respectively. In 2005, no major custom communications program was undertaken. However, lesser projects involving the sale reprints of previously produced custom communications were done.

On Line Interactive Educational Seminars: Another element in our product mix is the EP On Line Interactive TV Quality Educational Seminars. This is a project that capitalizes on the relationships and credibility we have built with major professional medical societies as well as lay and consumer organizations representing the interests of people with disabilities. We have produced a total of twenty such seminars over the past three years and now are poised to offer these in concert with professional medical societies such as the AADMD, CNF and CNS. The fact that all of these seminars offer continuing medical education (CME) accreditation for physicians usually without fees, coupled with the fact that they do not have to travel but can instead participate from the comforts of their homes or offices, help to reduce costs and improve efficiency and educational results. To our knowledge, no other company in the United States offers the kind of comprehensive authoritative educational programming focused exclusively on chronic life long conditions as we do. In addition, we do this by offering on line real time live interactive TV quality manner utilizing proprietary software and delivered over the Internet.

#### Results of Operations for the Period Ended September 30, 2006

##### Liquidity and Capital Resources

The cash flows from operations for the quarter ended September 30, 2006 were insufficient to meet the operating requirements of the Company. To balance the cash requirements needed for operations the Company secured long term financing that provided the company with \$5,000,000 of new working capital. Those transactions are described below.

On September 23, 2005, we completed financing agreements by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC. Under the securities purchase agreement, we will issue up to \$3,720,000 in callable

secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the lesser of \$0.12 or the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. In addition, our officer and director, Joseph Valenzano individually pledged 3,371,093 shares of our common stock.

In addition, we are to issue stock purchase warrants convertible into shares of our common stock on a one for one basis. The exercise price is \$.15 and the term of the warrants is 5 years.

A private investment firm, Westminster Securities Corporation based in New York City, received a commission of \$240,000 (8% of the net proceeds of \$3,000,000) for arranging for this financing.

To date we have received \$3,000,000 under the terms of the securities purchase agreement. We have applied these funds in the manner outlined in the table below.

Gross Proceeds Received	\$ 3,000,000
Less - Use of Proceeds	
Closing Costs and Fees	340,000
Liquidation of line of credit and other bank debt	470,000
Pay down of trade debt	889,000
Pay down of private debt*	826,291
Pay down of debt to related parties	174,709
Total Proceeds Utilized	2,700,000
Net Retained for operating expenses	\$300,000

\*The pay down of private debt included \$140,000 owed to an individual where 2,000,000 shares of our stock were contingently issuable as collateral.

Under the terms of the Securities Purchase Agreement, we were required to file with the SEC a proxy to increase our authorized shares by no later than October 21, 2005. Such proxy was not filed until November 23, 2005. We have been advised that the investors do not intend to seek any liquidated damages for our failure to file the proxy. Notwithstanding same, the investors have the right to request the liquidated damages. If the investors choose to request the liquidated damages based on the failure to file the proxy in a timely manner, then we would be required to pay a penalty of 2% of the outstanding principal balance from the period the proxy should have been filed on October 21, 2005 until it was filed on November 23, 2005.

On August 15, 2006, we completed additional financing agreements by executing a securities purchase agreement with the following entities: AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millenium Capital Partners II, LLC. Under the securities purchase agreement, we will issue up to \$2,000,000 in callable secured convertible notes. The notes are convertible into shares of our common stock. The conversion price is based on the average of the lowest 3 intra-day trading prices during the 20 trading days immediately prior to the conversion date discounted by 40%. The timing of the conversion is at the option of the holder. The notes are secured by a grant of a general security interest in all of our assets both tangible and intangible. The first note will be in the amount of \$500,000 and on the final business day of each month beginning in September 2006 and ending in November 2007, we shall issue additional notes of One Hundred Thousand Dollars (\$100,000.00).

With an existing forecast of minimum revenues of \$3,000,000 in 2006, management believes that with the operational cash to be generated and the retained working capital from our recent funding the overall cash requirements of operations are expected to be met. While there is no absolute guarantee that we will generate the forecast revenues, management believes that both the revenue generation forecast and the additional funding received will meet the liquidity requirements of EP Global for 2006.

At the present level of operations, working capital requirements to sustain operations approximates \$325,000 per month exclusive of any existing debt service that approximates an additional \$7,000 per month.

Should 2006 revenues not reach the forecast level noted above, resulting in an additional need for working capital it is believed that additional liquidity may be provided by the additional funding.

It is management's estimate that with its existing working capital resources and with the insurance of the contemplated additional funding noted, we will be able to meet the working capital requirements of operations for the coming twelve months of operations.

#### Results of Operations

Reflected in the tables below comparisons of revenue and sales and general administrative expenses for the nine months ended September 30, 2006 and 2005 as well as commentary on significant variations noted between the periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Advertising revenue	\$ 339,361	\$ 467,480	\$ 1,224,602	\$ 1,382,582
Subscription revenue	70,323	76,950	229,062	180,273
On line seminars	15,375	10,000	56,545	50,000
Book sales	7,806	8,073	28,837	57,281
Special projects	135,414	175,444	553,508	553,931
Other revenue	19,802	-	34,672	1,679
Revenue	<u>\$ 588,081</u>	<u>\$ 737,947</u>	<u>\$ 2,127,226</u>	<u>\$ 2,225,746</u>

Sales for the three months ended September 30, 2006 as compared to the same period in 2005 decreased by approximately \$150,000. The largest component of the decrease was advertising revenue of approximately \$128,000 along with an decrease of \$40,000 in special projects revenue. Sales for the nine months ended September 30, 2006 as compared to the same period in 2005 decreased as noted by approximately \$98,000. The net decrease is principally the result of the decrease in advertising revenue of approximately \$158,000 and \$29,000 in book sales offset by increases in subscription revenue of \$49,000 and other revenues of \$33,000.

#### Operating Expenses Including Cost of Sales

Both for the quarter and nine months ended cost of sales increased by approximately \$112,000 and \$225,000 respectively as compared to 2005. The increase is primarily due to additional salaries and higher on line costs due to having more on line seminars.

Commentary on the significant variations in selling, general and administrative expense follow the table that is noted below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Selling general and administrative expenses:				
Salaries and Benefits	\$ 268,793	\$ 270,268	\$ 820,270	\$ 707,864
Business Travel	47,750	166,471	174,806	289,292
Legal	30,578	66,395	74,405	106,660
Office Expenses	54,858	45,033	211,477	184,627
Information Technology	14,873	22,564	42,109	48,177
Business Development	5,539	10,047	12,364	23,816
Consultants	1,300	16,503	30,112	64,155
Investor Relations	20,413	9,000	45,315	9,000
Sales and Marketing	12,116	5,508	34,120	12,744
Professional Fees	33,531	52,064	102,180	114,801
Other G&A	797	63,288	126,616	210,569
Selling, general and administrative expenses	<u>\$ 490,548</u>	<u>\$ 727,141</u>	<u>\$ 1,673,774</u>	<u>\$ 1,771,705</u>

The significant variations in the components of selling, general and administrative expense are discussed below.

Business Travel for the quarter ended September 30, 2006 decreased by \$118,000, legal fees decreased by \$36,000, information technology decreased by \$8,000, consulting fees decreased by \$15,000 and professional fees decreased by \$19,000. The company continues to examine ways to further reduce expenses.

#### Interest, Depreciation and Amortization

Interest expense has increased in the quarter and first nine months of 2006 compared to 2005 due to the accretion of interest in the amount of \$61,876 for the quarter and \$116,140 for the nine months, for the recently completed financing. Amortization expense has increased \$28,333 for the quarter and \$54,444 for the nine months ended September 30, 2006 relating to \$340,000 of financing costs associated with that financing that are to be amortized over thirty nine months.

#### Taxes

We reflected no provision for income taxes in the first nine months of 2006 because of the availability of a significant net operating loss carry forward to offset any taxable income.

#### Debt Expenses

In accordance with Emerging Issues Task Force Topic 00-27 and SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", the Company performed calculations allocating the proceeds from the issuance of convertible debt with detachable warrants and the beneficial conversion privileges to each respective security at their fair values. The Company referred to SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in determining whether the conversion option is an embedded derivative instrument. In the case of the detachable warrants and the beneficial conversion privileges, the Company concluded the fair value was nil; accordingly, the entire amount recorded as a liability was associated with the convertible debt. The calculated fair value of the convertible debt of \$3,789,546 was recorded as a long term liability as of September 30, 2006. The convertible debt will be accreted to its face value of \$6.3 million under the interest method until it is either converted or matures. As of September 30, 2006, the total accretion was \$220,540 (of which \$185,340 was recorded in the nine months ended September 30, 2006). Separately, the holder of the note exercised conversion privileges for 7,600,000 shares of common stock thereby reducing the amount of the debt by \$30,995.

We incurred debt issue costs of \$340,000 relating to their convertible notes and will be expensed over the term of the convertible debt.

#### Off Balance Sheet Arrangements

None

### **Item 3. Controls and Procedures**

#### **Evaluation of Disclosure Controls**

During the course of the most recent examination of our financial statements for the period ended December 31, 2005 by our independent accountants, we were advised of the existence of a material weakness in our internal accounting controls that existed prior to September 2005. We have since applied the necessary corrective action and believe this weakness has been remediated.

Management evaluated the effectiveness of the disclosure controls and procedures as of April 12, 2006. This evaluation was conducted by the chief financial officer (the principal accounting officer).

Disclosure controls are controls and other procedures that are designed to ensure that information that is required to disclose in the reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported.

#### **Limitations on the Effectiveness of Controls**

Management does not expect that the disclosure controls or the internal controls over financial reporting will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, but no absolute, assurance that the objectives of a control system are met. Further, any control system reflects limitations on resources, and the benefits of a control system must be considered relative to its costs. These limitations also include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of a control. A design of a control system is also based upon certain assumptions about potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

#### **Conclusions**

Based upon his evaluation of the controls, the chief executive officer and the chief financial officer (principal accounting officer) have concluded that, subject to the limitations noted above, the disclosure controls are effective providing reasonable assurance that material information relating to the Company is made known to management on a timely basis during the period when the reports are being prepared. There were no changes in the internal controls that occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect the internal controls.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

See Item 3 of the Company's 2005 annual report on Form 10KSB as filed with the Securities and Exchange Commission on April 14, 2006.

The Company is a plaintiff against a former director and shareholder who has not satisfied the terms of his agreement with the Company of April 1998. The action resulted in the Company suspending payments to him under that agreement which at the time of suspension had a balance of \$119,651. The Company was and is also a counterclaim defendant in the case. A trial took place beginning on June 12, 2006, and the court entered findings of fact and rulings of law unfavorable to the Company. No final judgment has been entered and the court has ordered that further hearings be held. No further trial result or judgment is expected in the current calendar year. The Company intends to challenge the court's findings and rulings in the normal course of the litigation. It remains the Company's belief that it will not be liable for the payments or any other damages sought in the case and that it has meritorious defenses to the damage claims against it. The Company also believes that its claims in the case are well-grounded in fact and in law and that, successfully prosecuted as the case continues, might well exceed the amount of the claims against the Company in this action.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On February 21, 2006, we issued 60,000 shares of our restricted common stock to Richard Anslow and 40,000 shares of our restricted common stock to Greg Jaclin in consideration for legal services rendered to us. The issuance was valued at \$.025 per share or \$2,500. Our shares were issued in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. No commissions were paid for the issuance of such shares. The above issuance of shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance of such shares by us did not involve a public offering. Messrs. Anslow and Jaclin are sophisticated investors and had access to information normally provided in a prospectus regarding us. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, Messrs. Anslow and Jaclin had the necessary investment intent as required by Section 4(2) since they agreed to and received a share certificate bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. These restrictions ensure that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for the above transaction.

### **Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits and Reports on Form 8-K****A. Exhibits**

- 31 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**B. Reports on Form 8-K**

- |                    |  |
|--------------------|--|
| August 1, 2006     | Item 5.02. Departure Of Directors Or Principal Officers - Resignation of Chief Operating Officer |
| September 18, 2006 | Item 5.02. Departure Of Directors Or Principal Officers - Resignation of Chief Financial Officer |



## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 20, 2006

/s/ Joseph M. Valenzano, Jr.

Joseph M. Valenzano, Jr.  
President and Chief Executive Officer

/s/ James McGinnis

James McGinnis  
Chief Financial Officer